

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 6595

C O N F I D E N T I A L SANTO DOMINGO 1626

E.O. 11652: GDS

TAGS: EFIN, DR

SUBJ: IMF ADVISES GODR TO RESTRICT IMPORTS AND EXPECT LESS GROWTH
IN GNP

REF: A) SANTO DOMINGO 5616, B) SANTO DOMINGO 1086,

C) SANTO DOMINGO 1570

1. EDISON ZAYAS, HEAD OF IMF TEAM CURRENTLY VISITING SANTO DOMINGO, INFORMED ECONOMIC COUNSELOR AND FINANCIAL OFFICER APRIL 6 THAT HE IS ADVISING GODR TO CUT BACK RATHER SHARPLY ON IMPORTS IN 1976 AND TO EXPECT LESS REAL ECONOMIC GROWTH THAN IN RECENT YEARS. MORE SPECIFICALLY, HE IS CAUTIONING AGAINST ALLOWING A BALANCE-OF-PAYMENTS (B/P) DEFECIT OF MORE THAN US DOLS 60 MILLION IN 1976, AND THAT TO ACHIEVE THIS GOAL, HE IS SUGGESTING THAT DOMESTIC MONEY SUPPLY BE INCREASED BY NO MORE THAN 13 PERCENT AND BANK CREDIT BY NO MORE THAN 20 PERCENT.

2. ZAYAS SAID HE IS SOMEWHAT PUZZLED BY DOMINICAN B/P FIGURES, BUT THAT AS NEAR AS HE COULD DETERMINE THE DR BEGAN 1975 WITH NET FOREIGN EXCHANGE HOLDINGS OF US DOLS 13.1 MILLION AND ENDED THE YEAR WITH NET FOREIGN EXCHANGE RESERVES OF US DOLS 70.5 MILLION, FOR A NET GAIN OF US DOLS 57.4 MILLION.

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3. ZAYAS HEARD CENTRAL BANK GOVERNOR DIOGENES FERNANDEZ'

ANNUAL ECONOMIC SPEECH GIVEN LAST WEEK BEFORE THE US CHAMBER OF COMMERCE AND HAD READ THE EMBASSY'S LATEST ECONOMIC TRENDS REPORT PUBLISHED IN TOTO IN THE LOCAL PRESS. HE SAID THAT THE FIGURE OF 6.2 PERCENT GROWTH IN REAL GDP USED IN PRESIDENT BALAGUER'S FEBRUARY 27 SPEECH (REPORTED REFTEL B) AND IN FERNANDEZ' SPEECH (REPORTED REFTEL C) WAS TOO HIGH; THAT ACCORDING TO HIS CALCULATIONS LAST YEAR'S REAL GROWTH WAS NO MORE THAN THREE OR A MAXIMUM OF FOUR PERCENT. FOR 1975 HE ESTIMATES A GDP DEFLATOR OF 23 PERCENT. FOR 1976 HE IS RECOMMENDING A TARGET OF FIVE PERCENT REAL GROWTH AND NINE PERCENT INFLATION.

4. ZAYAS ADVISED CENTRAL BANK GOVERNOR FERNANDEZ THAT THE NOMINAL VALUE OF DOMINICAN IMPORTS FOR 1976 SHOULD BE NO GREATER THAN IN 1975, WHICH THE GODR HAS BEEN REPORTING AS US DOLS 773 MILLION AND THE EMBASSY HAS BEEN ESTIMATING AT US DOLS 825 MILLION. ZAYAS SAID HE HAD NO IDEA WHAT IMPORTS WERE THROUGH THE PARALLEL MARKET. IMPORTS INCREASED BY 59 PERCENT IN 1974 AND BY 14.9 PERCENT IN 1975 IF THE GODR IMPORT FIGURES ARE CORRECT AND 22.6 PERCENT IF THE EMBASSY'S ESTIMATES ARE CORRECT.

5. CONSIDERING THE 10 PERCENT INCREASE IN PETROLEUM PRICES WHICH CAME TOWARD THE END OF LAST YEAR AND THE WORLDWIDE TREND IN INFLATION, HOLDING 1976 IMPORTS TO THE MONETARY VALUE OF LAST YEAR'S IMPORTS WOULD SIGNIFY A CONSIDERABLE REDUCTION IN THE ABSOLUTE VOLUME OF IMPORTS. ZAYAS ASSUMED GREATER FOREIGN EXCHANGE WOULD HAVE TO GO TO INTERMEDIATE GOODS AND MACHINERY AND LESS TO FOOD AND LUXURY IMPORTS.

6. FOREIGN EXCHANGE EARNINGS LAST YEAR FROM SUGAR, SOLD AT AN AVERAGE PRICE OF 27 CENTS PER POUND, CAME TO US DOLS 560.6 MILLION. IF THE DR SELLS ITS SUGAR THIS YEAR AT THE CURRENT PRICE OF 14 CENTS PER POUND, IT WILL EARN APPROXIMATELY US DOLS 270 MILLION LESS IN FOREIGN EXCHANGE. ECONOMIC COUNSELOR ASKED ZAYAS HOW THE DEFICIT WOULD BE FINANCED ASSUMING IMPORTS AND OTHER ITEMS EXCEPT SUGAR IN THE B/P REMAINED THE SAME AND THE DR ONLY RAN DOWN RESERVES BY THE US DOLS 60 MILLION MAXIMUM REPORTED ABOVE? ZAYAS REPLIED HE SUPPOSED FROM BORROWINGS ABROAD, PARTICULARLY IN THE PRIVATE SECTOR.

7. AT THE SAME TIME, HOWEVER, ZAYAS INDICATED THAT CENTRAL BANK
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GOVERNOR FERNANDEZ AND OTHER GODR OFFICIALS DID NOT APPEAR INCLINED AT THIS MOMENT TO BORROW FROM THE IMF. HE SAID FERNANDEZ TOLD HIM THE GODR DID NOT WANT NOT WISH TO ACCEPT ANY CONDITIONS FOR IMF BORROWINGS, AND THAT THE GODR ALMOST CERTAINLY WOULD NOT WANT NOT ENTER INTO ANY STAND-BY AGREEMENT. (EMBASSY UNDERSTANDS IN CASE OF AN EXTENSIVE DROP IN SUGAR PRICES THE DR COULD BORROW HALF IF ITS US DOLS 50.3 MILLION IMF QUOTA AS COMPENSATORY FINANCING WITHOUT ACCEPTING ANY IMF CONDITIONS.)

8. ZAYAS REFERRED TO A SECTION GG THE CENTRAL BANK GOVERNOR'S SPEECH LAST WEEK INTIMATING THAT MORE IMPORTANT THAN UNDUE ATTENTION TO THE B/P WAS THE AVOIDANCE OF ANY SLOWDOWN IN THE GROWTH OF THE ECONOMY. (A SIMILAR THOUGHT WAS CONVEYED IN PRESIDENT BALAGUER'S FEB 27 SPEECH.)

9. ZAYAS INTERPRETED THIS AS ANOTHER INDICATION THAT THE GODR IS NOT RPT NOT YET CONVINCED THAT IT MAY HAVE TO FOREGO CONTINUED ECONOMIC GROWTH FOR B/P REASONS.

10. ZAYAS SAID HE IS PREPARING A WRITTEN REPORT ON HIS TRIP WHICH WILL BE READY WITHIN A MAXIMUM OF FIVE WEEKS. EMBASSY WOULD APPRECIATE RECEIVING A COPY WHEN IT DOES BECOME AVAILABLE.
HURWITCH

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